Developing Countries' Issues in the WTO Related to Agriculture

Developing and less-developed countries have special interests (special and differential treatment, export restraints, price stability, food security, food aid, and stock policies) in relation to the WTO in the next round of negotiations, in addition to being concerned with the fundamental WTO policy issues of market access, domestic support, and export competition. As these developing and less-developed countries identify their positions, coalitions of countries with common trade interests may emerge. *[Constanza Valdes (cvpecc@telcel.net.ve) and Edwin Young (ceyoung@econ.ag.gov)]*

The URAA established a new set of multilateral rules and disciplines for agricultural trade and domestic interventions. It also recognizes that the ability to meet these obligations varies widely from one country to another, providing for less restrictive disciplines for DCs.[1]

During the URAA negotiations many of the DCs viewed liberalization of world agricultural markets as a threat to their economic well-being and food security. Thus, they sought and were given special treatment that either exempted or gave longer phase-in periods for reforming policies and opening markets. The URAA maintained principles from earlier negotiating rounds of *Special and Differential Treatment (SDT)* for DCs. These principles are contained in all of the WTO Agreements (see box, *"Special and Differential Treatment in the URAA"*).

DCs and the Next Round

The major areas in the past negotiations (market access, domestic support, and export subsidies) are topics of concern to all WTO members (see other articles in this report for a discussion of the general WTO concerns). For DCs a key issue for agricultural negotiations at the next WTO agricultural round is whether they will continue to receive "special and differential treatment" and if they do, what form it will take. Implementation of existing commitments will continue until 2004 for DCs, whereas the industrialized countries will have to make their last cuts of tariffs and subsidies in the year 2000.

Preferential access, initially introduced in 1965, encourages industrial countries to assist DCs in their trading conditions and not to expect reciprocity for concessions made to DCs. A second measure, agreed to at the end of the Tokyo Round in 1979, provides a permanent legal basis for the market access concessions made by the developed to the developing countries under the generalized system of preferences (GSP). Under such preferential schemes, beneficiaries obtain market access through zero tariffs or lower tariff rates on certain products and quota allocations.

It is difficult to distinguish a separate DC position on many issues since individual country interests are diverse. As DCs identify their negotiating positions for the next round, they will be looking for coalitions of countries with common trade interests. The individual interests of DCs in the negotiations will vary depending on whether a country is a net food and raw material exporter, a net food and raw material importer, or a country that is concerned primarily with food self-sufficiency. The interests will also depend on whether a country is a producer of primary agricultural commodities or processed foods. Many DCs will stress how agricultural trade liberalization has different economic effects on developed countries compared to DCs, and they will try to ensure that new multilateral rules will reinforce the DCs' development policies. The form that any continuation of special and differential treatment takes will be important to the success of any new agreement. However, the types of concessions granted to DCs could slow the economic development and transition to free market economies in these countries.

Encouraging Development and Economic Reform

Over three-quarters of WTO members are developing countries and countries in the process of economic reform from non-market systems. As a consequence, the URAA paid much attention to the special needs and problems of developing and transition economies.

Since the mid-1980s, many countries have been implementing trade liberalization programs. The transition from protectionist to increasingly market-oriented domestic and trade policies, as well as improved investment conditions in many DCs, stemmed from multilateral (as part of their accession negotiations to GATT) and unilateral reforms. The substantial cuts in protection brought on by the Uruguay Round are estimated to lead to gains ranging from $55 billion to $90 billion (or 1.2 to 2.0 percent of GDP) in DCs, while the

[1]Countries self designated their classification as developed, developing and least-developed. In this paper DCs include all WTO member countries except European transition economies (except for Romania), Japan, Australia, New Zealand, and South Africa and the countries in North America, the EU, and EFTA.

Special and Differential Treatment in the URAA

Developing countries' reduction commitments are generally two-thirds those for developed countries and implementation periods are longer: 10 versus 6 years. Least-developed countries are not required to undertake across the board reduction commitments, but tariffs and domestic support are bound at base levels. Other exempt policies include certain input and investment subsidies to agriculture, as well as stocks held for food security purposes.

Market Access

- In allocating tariff-rate quotas (TRQs), special consideration can be given to the particular needs of developing country exporters.
- Exemptions in reduction commitments for market access are provided for certain products deemed of importance to food security.
- Developed countries agreed to provide better terms of access for agricultural products important to developing countries. The terms include greater liberalization of trade in tropical agricultural products to help developing countries shift production out of illicit crops.

Domestic Support

- Least developed countries are granted additional exemptions, including delayed applications of the provisions and more time for notification on domestic support (only every 2 years).
- For the non-commodity specific AMS provisions, the *de minimis* exclusion is 10 percent of the total value of agricultural output for DCs (versus 5 per cent for other countries).
- Domestic support to encourage diversification from growing illicit narcotic crops is exempted from inclusion in the DCs' calculation of AMS.
- DCs are permitted additional green box flexibility for programs to store foodstuffs and sell at subsidized prices to the rural and urban poor and to provide general investment subsidies to agriculture.

Export Support

- DCs are permitted to provide subsidies to reduce export marketing costs, and to provide internal and international transportation subsidies for agricultural exports.
- Differential treatment is provided for agricultural export credits.

gains to the world as a whole are in the order of $200 billion *(Martin and Winters)*. With the URAA, DCs agreed to take on their required obligations. They were, however, given longer transition periods to adjust to the more difficult WTO provisions. In addition, a Ministerial decision on measures in favor of least developed countries provides extra flexibility to those countries in implementing WTO agreements, calls for an acceleration in the implementation of market access concessions affecting goods of export interest to those countries, and seeks increased technical assistance for them.

Market Access

The process of agricultural sector reform has been reflected in reductions of overall tariff rates, export subsidies and domestic support programs. Developing countries that did not have tariff bindings before the Uruguay Round only had to bind those tariffs, they did not have to reduce them. Currently, the average applied tariff in DCs varies between 10 and 20 percent, considerably lower than the 20 and 60 percent range of a decade ago. Tariffs applied to foodstuffs are very close to general tariffs *(CEPAL, December 1997)*.

DCs have widely divergent goals concerning market access and creating a more favorable trade environment for their agricultural products. The negotiating position of many exporting DCs with competitive agricultural sectors will be similar to that of the Cairns Group, of which several DCs are members. These countries will seek progressive universal reduction of trade barriers and tariff-rate reduction formulas. Other exporting DCs with less competitive sectors will focus efforts on maintaining preferential market access, although most exporting DCs expect to increase exports as tariffs are reduced. For the least-developed countries, the principal problem is not market access, but lack of production capacity to achieve new trading opportunities.

From a commodity standpoint, an important issue for DCs arises from implementation of the URAA, that is likely to continue into the next round, is gains in market access in developed economies for their agricultural exports, particularly sugar, bananas, beef, citrus fruits, and horticultural products (fresh and semi-processed). In the URAA, developed countries provided greater than average reductions on tariffs of particular products of interest to DCs (a 37-percent reduction on all agricultural products compared with a 43-percent reduction for tropical products). Developing country exports have grown by more than 90 percent since 1986. In addition, developing countries' share of world agricultural trade increased from 40.0 percent in 1990 to 41.6 percent in 1996.

A recent UNCTAD/WTO study on tariff peaks and escalations indicates that post-URAA tariff peaks (that is, rates above 12 percent) are concentrated in the agricultural sector (EU-87 percent, Japan-80 percent, US-36 percent, and Canada-28 percent). The highest frequency and the highest rates appear for sugar, tobacco, cotton, and prepared fruits and vegetables—all products of interest to DC exporters. Also, eliminating steep tariff escalation[2] in these products will stimulate processing in the developing countries. Exporting countries, including DCs, will not only push for reduction of "peak rates" and "tariff escalation." Many will favor continued tariff reductions in both developing and in developed economies.

Developed countries maintained their General System of Preferences or GSP scheme for DCs. Several agricultural products of significant interest to DCs (e.g. sugar, bananas, beef, and other commodities) are covered by preferential arrangements. Increasing the number of preferential arrangements means more beneficiaries and more competition for preferential markets, resulting in a more efficient distribution of trade, and benefiting lower cost exporters at the expense of higher cost suppliers.

DCs might seek to increase the tariff quota quantities of developed countries and to introduce alternative mechanisms to provide DCs (currently under the GSP) with enhanced access to the allocation of minimum access quotas. Also, they may seek to create clearer guidelines on the allocation procedures for import licenses.

Importing DCs are concerned with the impacts of free trade on domestic producers and on food supplies. Some importing DCs, especially in Latin America, have been adjusting applied tariff rates as a means of regulating imports and stabilizing domestic prices. This was done in Argentina and Mexico at the end of 1994 in response to foreign exchange constraints, and for Brazil in an effort to limit the growth of its trade deficit *(CEPAL, November 1997)*.

[2]The situation where zero or low tariffs are applied to the imports of primary commodities, with tariffs increasing or escalating as the product undergoes increased processing.

Export Subsidies

Twenty-five WTO members, of which 10 are DCs,[3] committed to reduce their export subsidies. DCs do not have a unified position on export subsidy reductions. Since export subsidies reduce world commodity prices, exporting DCs who compete with export subsidies favor the reductions. Even when countries are not competing directly in subsidized markets, displacement of exports from third countries affects world price levels. Since export subsidies lower food prices, importing countries will face higher import costs if subsidies are reduced. Consequently, these DCs may oppose subsidy reductions or require a stronger commitment of food aid and trade credit. However, importing DCs need to recognize, as many already do, that subsidized imports reduce incentives for domestic production.

Most DCs Provide Limited Domestic Support To Agriculture

Prior to the Uruguay Round, the agricultural sectors in DCs received very little government support (and in many cases agriculture was taxed rather than subsidized) due, in part, to exchange-rate overvaluation, budgetary constraints, and the lack of administrative infrastructure to provide the subsidies. In addition, many DCs, principally in Latin America, implemented structural adjustment programs (SAPs) in conjunction with the World Bank and IMF loans. The SAPs involved substantial trade liberalization accompanied by fiscal and monetary austerity and devaluation measures. As a result, many DCs had very low or zero aggregate measures of support (AMS) in the 1986-88 base period. Of the approximately 60 percent of WTO member who reported base AMSs of zero, all are DCs.

A low or zero AMS distinguishes most DCs from most industrial countries. The special and differential treatment for DCs (the 10 per cent *de minimis* and the green box) give most DCs wide scope to support their agricultural sectors with minimal impacts on trade. Of the 42 developing countries' WTO domestic support notifications for 1995 and 1996 (as of May 1998), 12 notifications show recourse to the *de minimis* provision. During the next agricultural negotiations, DCs might seek to add a clause to the domestic support reduction commitment that would allow for greater flexibility to increase income support if the need arises. All countries, including DCs, are free to provide decoupled income support, which falls under the green box.

Food Security, Domestic Food Aid, and Price Variability

The likely impacts of the URAA on the level and stability of market prices raised food security concerns among food importing DCs, but also among some developed countries

[3]DCs with export subsidy commitments include: Brazil, Colombia, Cyprus, Indonesia, Israel, Panama, Romania, Turkey, Uruguay, and Venezuela.

such as Japan. While in the long run trade will raise national income (and thus improve food security), in the short run, the low-income food-deficit countries are concerned that more liberal world agricultural markets will lead to higher import prices or reduce their food aid and reduce food security. The concerns of food importing DCs are addressed in the Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Program on Least-Developed and Net-Food Importing Countries (NFIC),[4] which includes mechanisms to monitor food aid under the Food Aid Convention and to ensure a sufficient level of food aid in grant form and/or concessional terms.

DCs are concerned with both the level and variability of prices. In the past, several food importing DCs benefited from exporter subsidies. With reductions in subsidies, these food importing DCs must pay higher prices for commodities. In a summary of various modeling efforts assessing the impacts of the URAA on world market prices, Sharma, Konandreas, and Greenfield found expected price increases of between 4 and 7 percent. Prices for rice, wheat, sugar, and corn were forecast to increase, having a negative impact on net DC importers. However, prices for coffee, cocoa, and bananas were expected to decline because of the URAA, to the detriment of net DC exporters. However, with more countries participating in trade in larger amounts and in more transparent and price responsive ways, a given shock in supply should be accompanied by smaller price changes (Collins and Glauber). Food products should move from areas of relative surplus to areas with food deficits.

There is growing concern among net food importing DCs about the impact of reduced food aid availability resulting from a reduction of surplus stocks and the higher prices. FAO estimated that in the year 2000, the food import bill of the low-income food-deficit countries will reach US$9.8 billion and 14 percent of this increase would stem from the Uruguay Round *(FAO, 1994)*. The Marrakesh Decision also calls for donor aid programs to provide technical assistance to LDCs and NFICs that need to improve their agricultural productivity and infrastructure, and possibly short-term assistance to help finance normal commercial imports. To date, eight DCs report using special and differential provisions for public stockholding for food security purposes while six countries are providing foodstuffs at subsidized prices to meet food requirement needs for poor households.

Sanitary and Phytosanitary (SPS) Measures

Recognizing that developing countries may encounter difficulties in complying with the SPS measures of importing countries, the Agreement on Sanitary and Phytosanitary Measures (SPS) included, for the benefit of DCs, provisions on equivalence in the SPS measures, the provision of technical assistance, longer time frames for compliance, and delayed application of the provisions.

The SPS measures of major importer countries are becoming increasingly complex, and in some cases require a level of technology not yet widely available to developing country exporters. For example, testing laboratories may not have the personnel or equipment necessary to do basic testing for product certification.

The WTO, in cooperation with other international organizations, provides technical assistance in the form of regional and national seminars on the SPS agreement to DCs. Currently, technical assistance is being provided to DCs in the areas of processing technologies, research and infrastructure, and in the establishment of national regulatory agencies to allow DCs to comply with SPS measures, so that developing countries may meet the appropriate level of SPS protection required by developed country importers. DC exporters will remain concerned that SPS barriers do limit their export opportunities.

Conclusions

Continuation of the reform process, further progressive reductions of protection and support, and liberalization of agricultural trade started at the URAA, are of major importance not just for DCs but for all WTO members. A key concern to many DCs is continuation of special and differential treatment for developing countries given in the URAA with respect to their development needs. To fully enjoy the benefits of world trade liberalization, DCs need to bargain at the next round for access to developed countries' markets for their agricultural exports. DCs may also bargain for technical and economic assistance to help them speed the reform of their domestic and trade policies.

Despite URAA achievements to date, distortions affecting DC agricultural trade persist. Tariffs and other nontariff barriers, as well as export subsidies, continue to distort world agricultural markets. Domestic support disciplines have permitted high support levels to continue for the more sensitive commodities. Rules regarding the use of export credit, food aid, and other forms of marketing assistance for exports remain unresolved. Also, some agricultural products of interest to DCs have remained largely outside the liberalization process and remain highly protected—dairy products, sugar, peanuts.

It is unlikely that at the forthcoming worldwide agricultural trade negotiations a unanimous DC coalition will emerge. As DCs identify their negotiating positions for the next round they will be looking for coalitions of countries with common trade interests. Strong coalitions will likely be able to affect the direction of the negotiations.

[4]Net-food importing countries (NFICs) comprise the 48 least-developed countries as defined by the United Nations and 18 developing countries.

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